AUDIT QUALITY, GOVERNANCE MECHANISMS AND EARNINGS MANAGEMENT OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract
Corporate failures across the globe have become an issue of concern for stakeholders and regulators. Financial reporting scandals that occurred in oceanic bank, intercontinental bank and the recent bank crises of Skye Bank in 2016 really motivated the need for this study. The study examines audit quality, governance mechanism and earnings management of listed deposit money banks in Nigeria for the period of eleven years from 2009-2019. The population of the study consists of all the 14 listed deposit money banks in Nigeria as at 31st December, 2019. The study adopted expo-factor and correlation research designs, and multiple regression was employed as technique of data analysis. The findings of the study revealed that audit independence, managerial ownership and board independent have significant negative impact on earnings management of quoted Nigerian banks while auditor size and audit tenure have insignificant influence on earnings management of listed deposit money banks in Nigeria. In line with the findings, the study therefore concluded that audit independence, managerial ownership and board independence have significant negative impact on earnings management of banks in Nigeria while audit firm size and audit tenure have no significant impact on earnings management of listed deposit money banks in Nigeria. It is therefore recommended that Nigeria listed deposit money banks should maintain the audit fees they are paying to the audit firm or increase it as any attempt to reduce the audit fees can increase earnings management. However managerial shareholding should be increase as it will reduce earnings management and also board independent directors on the board should be increased from minimum of two as it will reduce earnings management of listed deposit money banks in Nigeria on the other hand there is no significant impact between audit firm tenure and audit firm size on earnings management of listed deposit money banks in Nigeria. For audit firm size the study recommended that local audit firms should be used instead of the Big 4 as the size

have no effect on earnings management. Also the study recommended that for audit tenure the bank should maintain its audit tenure as it does not have any influence on earnings management.

Keywords: Audit quality, Governance mechanisms, Earnings management, Deposit money banks

1. Introduction

With the increase and growth in business and commercial activities across the globe, it becomes necessary for owners of businesses to entrust their investments into the hands of Managers who manage the business on their behalf and in their best interest. This contractual relationship between owners and managers has given rise to discretionary behavior of management (earnings management). Nigeria has experience corporate failures in 2009, where banks such as oceanic bank, intercontinental among others were in distress despite reporting high profit and statutory audit by big audit firms. Recently, what motivated this study was actually what happened in Skye bank Nigeria Plc in 2016 where the Central bank of Nigeria (CBN) ordered for the change of directors and top management of skye bank Nig plc, and it is believed that the central bank of Nigeria (CBN) as a regulatory body will not for no reason ordered for the change of directors and top management of a bank. Though the central bank of Nigeria publicly declare that sky bank is not in distress. This depicted that skye bank was in a serious crisis before the central bank of Nigeria have to intervene. This caught my attention and also considering what happen to oceanic bank and others in 2009, before the central bank of Nigeria intervened.

Managers discretionary behavior known as earnings management; income smoothening, creative accounting or window dressing may lead to conflict of interest and consequently earnings management to cause erosion in earnings quality thereby rendering financial reporting quality to illusion (Levitt, 1998). Earnings management is a purposeful intervention in the external financial reporting process with the intent of obtaining some private gain (Schipper, 1989). Hussainey (2009) claimed that earnings management means managers manipulating financial reports in order to produce a good image of themselves and the firms they manage. In order to curtail management discretionary behavior, there is need for the principal to engage a monitoring mechanism that will monitor and checkmate earnings management. One of such monitoring mechanism is audit quality.

The banking sector in Nigeria play a major role in growth and development of Nigeria economy, it is a sector that serves as an intermediary between lenders and borrowers of funds. Any economy that must grow and develop must encourage investment across the country and the only way to achieve this, is by bringing two players together. The two players are those who are willing to part with funds and those who are willing to utilize these funds for investment and standing at the middle is the public quoted deposit money banks in Nigeria. Considering the present administration drive to revamp Nigeria economy, it is necessary to tackle earnings management in listed DMBs in Nigeria before economic growth and development can be achieved. The adverse effect of earnings management is a global issue and that is why different countries have their codes of corporate governance, in order to prevent corporate failures. Nigeria listed DMBs is a critical and sensitive sector not only to owners, investors and stakeholders but the Nation at large. The nature and peculiar role play by DMBs in Nigeria economy make the government have a regulatory body that supervise and monitor the funds under the custody of all DMBs in Nigeria. The failure of DMBs in Nigeria is the failure of the economy as a whole because the economy will be adversely affected. Financial scandals and collapse of some multi-national corporations are continuously experienced. Therefore, is it a week corporate governance or non-quality audit? These are critical questions to be answered at the end of this research work. However, it could be one or both of them resulting into unethical accounting practices also known as earnings management.

Considering the case of Skye bank Nig P.L.C as reported in vanguard dailies (2016), where the Central bank of Nigeria ordered for the change of directors and management of Skye bank Plc due to liquidity crises despite audit by Big audit firms, Central bank of Nigeria have to take this measure in order to ensure that depositors funds are safe for viable economy. Though the central bank of Nigeria publicly declare that Skye bank is not in distress, as a regulatory body of course central bank have to come out to publicly declare in order to calm panic and tension for Skye bank customers across Nigeria but the major cause for this change of directors and top management is liquidity crises. Despite the yearly audit why then was the liquidity crises not reflected in the yearly audit report by the so call big audit firms. As researchers we must continue to research on reliable financial reporting in order to salvage investors and other stakeholders from opportunists' managers', this motivates the study of audit quality, governance mechanism and earnings management of public quoted DMBs in Nigeria. The study chooses variables that can monitor and can align management/ owners interest in order to reduce earnings management so as to avoid further bank crises among Nigeria quoted DMBs unlike other studies that examined audit quality, managerial ownership or board independent directors on earnings management separately and in other sectors, such studies are; Tijjani (2015), Shayanfar (2016), Houque, Ahmed and Zijl (2015), Solima and Ragab (2014), Nuryama (2013), Okolie, Izendonmi and Enofe (2013), Inaan, Khmoussi and Fatima (2012). Lin and Hwang (2010), Jordan, Clark and Hames (2010), Yasar (2013), Memis and Cetenak (2012), Okolie (2014), Adeyemi and Okpala (2011), Rad, Salehi and Pour (2016), Ebrahim (2001), Reichelt and Wang (2010), Jenkins and Velury (2008), Alves (2012), Ali, Salleh and Hassan (2008), Shen (2016), Spino (2012), Isenmila and Elijah (2012), Ogbonnaya, Ekwe and Ihendinihu (2016), Farouk and Hassan (2014), Alfayoumi, Abuzayed and Alexander (2010), Khalil and Ozkan (2016), Chen, Cheng and Wang (2011), Nahandi, Baghbani and Bolouri(2011), Roodposhti and Chashmi (2010), Hassan and Ibrahim (2014), Abdullahi and Ismail (2009), Oba (2014), Nugroho and Eko (2011), Yang, Chun and Ramadili (2009) and Saleh, Iskandar and Ramat (2005). This study is different from previous studies because it considered audit quality variables (Audit size, audit tenure, audit independence) as well as corporate governance variables (managerial ownership and independent director) altogether on earnings management of DMBs in Nigeria.

Another gap this study is set to fill is that of methodology, earnings management measurements, most previous studies used accrual measurements whereas in banking sector the components of the accruals measurement are not found. Previous studies that adopted accrual measurement to measure earnings management are; Tijjani (2015), Houqe, Ahmed and Zijl (2015), Solima and Regard (2014), Nuryaman (2013), Okolie Izendonmi and Enofe (2013), Innam, Khmoussi and Fatima (2012), Lin and Hwang (2018), Jordan and Clark (2010), Yasar (2013), Mamis and nCetenak (2012), Adeyemi and Okpala (2011), Rad, Salehi and Pour (2016), Ebrahim (2001), Alves (2012), Spino (2013), Isenmila and Elijah (2012), Farouk and Hassan (2014) among others. Some components of the model are not obtainable in bank financial statement of listed deposit money bank in Nigeria. This study therefore adopted loan loss provision (LLP) model of Change, Shen and Fang (2008) considering the domain of the study.

The main objective of this study is to examine the effect of audit quality and governance mechanisms on earnings management of quoted DMBs in Nigeria, other specific objectives are;

i. to determine the impact of audit firm size on earnings management of quoted DMBs in Nigeria.

ii. to examine the effect of audit independence on earnings management of quoted DMBs in Nigeria.

iii. to identify the extent to which audit firm tenure influences earnings management of quoted DMBs in Nigeria.

iv. to investigate the impact of managerial ownership on earnings management of quoted DMBs in Nigeria

v. to evaluate the influence of board independence on earnings Management of quoted DMBs in Nigeria

In line with the objectives of the study, the following hypotheses were formulated in null form:

H_{01}: Audit firm size has no significant impact on earnings management of quoted DMBs in Nigeria.

H_{02}: Audit firm independence has no significant effect on earnings management of quoted DMBs in Nigeria.

H_{03}: Audit firm tenure has no significant influence on earnings management of quoted DMBs in Nigeria.

H_{04}: Managerial ownership has no significant impact on earnings management of quoted DMBs in Nigeria

H_{05}: Board independence has no significant influence on earnings management of quoted DMBs in Nigeria

This research gains its weight from the increasingly strategic business activities in the financial sector, which allows banks to be more strategic in their business approach, and enables them to play its financial intermediation role in an efficient and profitable manner.

2. Literature Review and Theoretical Framework

Audit Firm Size and Earnings Management

Shayanfar (2016) investigated the impact of audit quality on earnings response coefficient of the listed companies in Tehran Stock Exchange in Iran for the period of five years (2009-2013) by taken 83 firms using Cochrane method as the sample size of the study. The independent variable of the study was proxied by audit firm size while the dependent variable was proxied by earnings response coefficient measure by CAR= a+b (SUE) +e, where; CARi: Modified return of the firm i for a 12-month period t, SUEi: Annual dividend of the firm i in the year t, Ei: residual term. Secondary data was collected using the annual reports and accounts of the selected companies; the study adopted regression technique as a technique of data analysis and found that audit firm size negatively and significantly impacted on earnings response coefficient of the listed firms in Iran. The study fails to validate any theory as such the conclusion is questionable.

Furthermore, Tijjani (2015) examined the relationship between audit quality and earnings management of listed building material firms in Nigeria over a period of seven years 2007-2013, the study used the whole population of listed building material firms in Nigeria as the sample size of the study. Audit quality as an independent variable of the study was proxy by audit firm size while earnings management as the dependent variable of the study was proxy by discretionary accruals and modified jones model of 1995 was adopted. The study was hinge on agency theory to validate the result of the study. Secondary data was collected from the annual reports and accounts of the selected building material firms and analyze with generalize least square regression technique. The study found a negative and significant relationship between audit firm size and earnings management of listed building material firms in Nigeria. This conclusion may not be applicable in other sector such as, quoted banks in Nigeria as such its need to conduct a similar study in such sector.

Conversely, Houqe, Ahmed and Zijl (2015) examined the effect of audit quality on earnings quality and cost of equity capital evidence from India for the period of 1998-2009. The study adopted filter to arrive at the sample size of 7,308 firms after removing oil and gas companies, utilities companies and financial service companies. The regressor was audit quality proxied by auditor size while the dependent variable of the study earnings management was proxied by discretionary accruals of modified Jones 1991 model. Secondary data was collected from the annual report and accounts of the sampled firms and analysed with multiple regression as a technique of data analysis. The study found that audit firm size negatively influences earnings management. The study did not validate any theory as such the conclusion may not hold water.

In addition, Soliman and Ragab (2014) examined audit committee effectiveness; audit quality and earnings management of 40 Egyptian listed companies for the period 2007 – 2010 by taken 40 companies as the sampling size by filter sampling excluding banks, insurance companies and leasing companies. The audit quality was proxied by Big 4 and non- Big 4 audit firms, on the other hand the dependent variable of the study was proxied by earnings management modified model of Jones (1991) after controlling for firm size, leverage and cash flow for operating activities. Secondary data was collected from the annual reports and accounts of the listed companies and analyzed with multiple regression technique of data analysis. The study found that audit firm size has significant negative association with discretionary accruals. The study failed to hinge on theory and excludes financial service firms is a shortcoming of the study.

Audit Firm Independence and Earnings Management

Okolie (2014) examined Auditor Tenure, Auditor independence and accrual-based earnings management of quoted companies in Nigeria for the period of 2006 to 2011 using a sample 57 firms. Audit tenure and audit independence as the independent variable of the study was proxied by audit tenure and audit fees while the earnings management as the dependent variable of the study was proxy by discretionary accrual of modified Jones (1991) model of Dechow, Sloan and Sweeney (1995). Theory of inspired confidence was adopted to underpin the findings of the study. Secondary data was collected from the annual reports and accounts of the selected firms and analysed using regression as a statistical technique of data analysis, the study found a significant and negative relationship between audit independent and earnings management. The study did not adopt any scientific sampling technique to arrive at the sample size of the study and the study excludes financial service firms.

Again, Okolie,et al (2013) examined Audit Quality and Accrual – Based Earnings Management of Quoted Companies in Nigeria for the period of 2006 to 2011 by taken a sample of 57 firms as the sample size of the study. Audit quality as the independent variable of the study was proxied by audit firm size, audit firm tenure and audit fees while earnings management as the dependent variable of the study was proxies by discretionary accrual of reformed Jones (1991) by Dechow, Sloan and Sweeney (1995). The study underpinned by theory of inspired confidence to support the findings of the study. Secondary data was collected from annual reports and accounts of the selected firms and analyzed using regression as a statistical technique of data analysis and found that audit tenure has negative but insignificant impact on earnings management. The study failed to adopt any sampling technique as such the conclusion of the study may not represent the population of the study.

Audit Firm Tenure and Earnings Management

Rad, Salehi and Pour (2016) examined the impact of audit quality and ownership structure on earnings management of listed firms on Tehran Stock exchange for the period of 2009-2013 by taken a sample of 100 firms. Audit quality and ownership structure as an independent variable of the study was proxied by auditor reputation, audit tenure and ownership structure while earnings management as the dependent variable of the study was proxied by modified Jones model, Secondary data was collected from the annual reports and accounts of the selected firms and analyzed using multiple regression as a statistical tool of data analysis and found that audit tenure has a significant negative impact on earnings management. The study failed to validate its claim with a theory and did not adopt a sampling technique to arrive at the sample size of the study. Furthermore, Okolie (2014) the study found a significant and negative relationship between audit tenure and earnings management. The study did not adopt any scientific sampling technique to arrive at the sample size of the study and the study excludes financial service firms.

Again, Okolie et al, (2013) examined Audit Quality and Accrual – Based Earnings Management of Quoted Companies in Nigeria for the period of 2006 to 2011 by taken a sample of 57 firms as the sample size of the study. Audit quality as the independent variable of the study was proxied by audit firm size, audit firm tenure and audit fees while earnings management as the dependent variable of the study was proxies by discretionary accrual of modified Jones (1991) by Dechow, Sloan and Sweeney (1995). The study was underpinned by theory of inspired confidence to support the findings of the study. Data was collected from annual reports and accounts of the selected firms and analyzed using regression as a statistical technique of data analysis and found that audit tenure have negative significant impact on earnings management. The study failed to adopt any sampling technique as such the conclusion of the study may not represent the population of the study.

Managerial Ownership and Earnings Management

Previous studies revealed that ownership by management is directly related with earnings power for incomes. The ownership by management is either negative or positive effect on earnings management (Warfield & Wild 1995). It is expected that ownership by management should reduce the conflict of interest between management and owners as such aligning the interest of both the owners and management which will go a long way in curtailing management discretionary behavior.

Alves (2012) examined the relationship between corporate ownership structure and earnings management evidence from Portugal for the period of 2002 to 2007 using a sample of 34 non-financial firms as sample size of the study by filter. The earnings management as the dependent variable of the study was measured by discretionary accruals of modified Jones model of Dechow et al (1995). Agency theory was adopted to underpin the findings of the study. Data was collected from secondary source via annual reports and accounts of the sample companies and analyzed using ordinary least square regression as a statistical tool of analysis and the study found that earnings management is negatively related to managerial ownership. The findings may not be applicable in financial service firms due to their peculiarity.

Again, Ali, Salleh, and Hassan (2008) examined ownership structure and earnings management in Malaysian Listed Companies: The Size Effect for the period of 2002 to 2003 by taken a sample of 1,001 firms as the sample size of the study using filter criteria to arrive at the sample of the study. Ownership structure as the independent variable of the study was measured by managerial ownership while earnings management as the dependent variable of the study was proxied by discretionary accruals of cross-sectional modified Jones (1991) model as suggested by Defond and Jiambalvo (1994). Agency theory was adopted to underpin the findings of the study. Data was collected from secondary source via annual reports and accounts of the sampled firms and analysed using ordinary least square regression as the statistical tool of analysis and found a negative association between managerial ownership and earnings management. The study excluded financial service firms.

In addition, Shen (2016) examined industry competition, ownership structures and earnings management: Empirical Analysis based on Listed Banks in China for the period of 2005 to 2014 by taking a sample of 16 banks out of the total 200 banks that disclose their annual operating condition. Industry competition and ownership structure as the independent variable of the study was measured by managerial ownership while earnings management as the dependent variable of the study was measured by discretionary accrual of risk adjusted loan loss provision rate. Agency theory was adopted to underpin the findings of the study. Data was collected from secondary source via annual reports and accounts of the sampled banks and analysed using OLS and found a negative relationship between managerial ownership and earnings management. The study did not back up the earnings management adopted with an argument or as used by prior scholars.

Furthermore, Spinos (2013) who investigated the Managerial ownership and earnings management in times of financial crisis: evidence from USA for the period of 2004 to 2009 by taken a sample of 235 U.S firms as the sample size of the study. Managerial ownership as an explanatory variable of the study was represented by share of managerial ownership to total shareholding while earnings management as the explained variable of the study was proxied by discretionary accrual of modified Jones model of Dechow et al (1995). Agency theory was adopted to underpin the findings of the study. Secondary source of data was collected from the annual reports and accounts of the sample firms and analysed using ordinary least square regression as a tool statistical tool of analysis and found no significant relationship between managerial ownership and earnings management. The study failed to adopt a sampling technique to arrive at the sample size of the study.

Conversely, Isenmila and Elijah (2012) after they examined the impact of ownership structure on earnings management of listed for the period of 2006 to 2010 by taken a sample size of 10 commercial banks out of 24 banks in Nigeria using simple random sampling technique. Ownership structure as the explanatory variable of the study was represented by insider ownership, institutional ownership and external block ownership while earnings management as the explained variable of the study was measured by discretionary accruals. Agency theory was adopted to underpin the findings of the study. Data was collected from secondary source via annual reports and accounts of the listed commercial banks and CBN statistical bulletin of the sampled banks and analysed using multivariate regression technique as a statistical tool of analysis and found that managerial ownership is positive and statistically significant in influencing earnings management. Considering the domain of the study loan loss provision should have been used to measure the discretionary accruals instead of the modified Jones model.

Ogbonnaya, Ekwe, and Ihendinihu (2016) investigated corporate governance and ownership structure on earnings management of brewery industry in Nigeria for the period of 2004 to 2013 by taken 2 companies as the sample size of the study because only these two companies have complete data. Corporate governance and ownership structure as the independent variable of the study was proxy by CEO duality, managerial ownership, net asset present value, price earnings ratio while earnings management as the dependent variable of the study was proxy by earnings profit. Agency theory was adopted to underpin the findings of the study. Data was collected from secondary source via annual reports and accounts of the sampled companies and analyzed using ordinary least square regression as a statistical technique of analysis and found that ownership by management has significant positive influence on earnings management. The study used earnings in terms of profit instead of earnings management models and also the study sampled just two companies which may not represent the whole brewery industries listed in Nigeria stock exchange.

Consequently, Farouk and Hassan (2014) examined the influence of possession formation on earnings management of Quoted Chemical and Paints Firms in Nigeria for the period of 2007-2011 by taken a sample of 8 companies using a filter criteria to arrive at the sample size of the study. Possession formation as the explanatory variable of the study was measured by managerial ownership, institutional ownership and block-holder ownership contrarily earnings management as the explained variable of the study was measured discretionary accruals of modified Jones model of Dechow et al (1995). Agency theory was adopted to validate the findings of the study. Secondary data was collected from audited annual reports of the sampled companies and analysed using ordinary least square regression as statistical technique of analysis with SPSS 15 as a tool of analysis and found direct significant association amid managerial ownership on earnings management.

Board Independence and Earnings Management

Khalil & Ozkan, (2016) examined board independence, audit quality and earnings management: Evidence from Egypt for the period of 2005 to 2012 by taken a sample of 125 firm using filter criteria. Board independence and audit quality as the independent variable of the study was represented by proportion of non-executive directors and the big-4 audit firms while earnings management as the dependent variable of the study was proxied by accruals of Kothari et al (2005) model. Data was collected from secondary source via annual reports and accounts of the sample firms and analysed using the ordinary least square regression technique as a statistical tool of analysis and the study found that their results cast doubt on the notion that a higher ratio of non-executive board members is associated with lower earnings management. The study also found that the effect of board independence on earnings management practices is contingent on the levels of ownership held by executive directors and large shareholders as well as the composition of audit committee composed. The study failed to validate any theory and excluded financial service firms.

Again, Chen, Cheng, and Wang, (2011) examined whether increase in board independence reduce earnings management? evidenced from recent regulatory reforms for the pre-regulation period of 1999-2001 to the post-regulation period 2004-2006 by taken a sample of 1205 as the sample size of the study using filter criteria. Noncompliance as the independent variable of the study was proxy by 1 for firms that did not have a majority independent board in 2000 and 0 otherwise while earnings management as the dependent variable was proxied by discretionary accrual of modified Jones (1995) cross-sectional model. Data was collected from annual reports and accounts of the sampled firms and analyzed using regression as a statistical technique of data analysis and found that the coefficient on the Non-Compliance indicator is negative but is not significantly different from zero at conventional levels. That is, compared to compliance firms, non-compliance firms do not experience any incremental decrease in earnings management. Considering differences in regulatory environment among Countries, this conclusion cannot be generalized and no theory was used to underpin the study.

In addition, Nahandi, Baghbani, and Bolouri, (2011) examined Board Combination and Earnings Management: Evidence from Iran for the period of 2001-2008 by taken a sample of 480 firm year observation using filter criteria to arrive at the sample size of the study. Board combination as the independent variable of the study was represented by board size, board combination and CEO duality while earnings management as the dependent variable of the study was measured by accrual of modified Jones model of Dechow et al (1995). Agency theory was adopted to underpin the findings of the study. Secondary data was collected from annual reports and accounts of the sample firms and analysed using Ordinary least Square regression as a statistical tool of analysis and found that board independence has a negative but insignificant relationship with earnings.

Furthermore, Roodposhti and Chashmi (2010) examined the effect of board composition and ownership concentration on earnings management: evidence from Iran for the period of 2004-2008 by taken a sample of 196 firms using a filter criteria to eliminate financial service firms and firms without complete data. Board composition as the independent variable of the study was proxied by board independence, CEO duality and percentage of block ownership while the dependent variable of the study earnings management was proxied by modified Jones (1995) model. Secondary data was collected from annual reports and accounts of the sample firms and analysed using the regression as a statistical tool of analysis and found a negative and significant association between board independence and earnings management. The study did not validate any theory and it excluded financial service firms.

In addition, Hassan and Ibrahim (2014) examined the Governance attributes and real Activities manipulation of listed manufacturing firms in Nigeria for the period of 2007-2012 by taken a sample of 20 firms using filter criteria. Governance attributes as the independent variable of the study was measured by inside Directors, outside Directors, gray Directors, women Directors, audit committee independence, audit Committee financial literacy, audit committee meeting, audit committee size while real activities manipulation as the dependent variable of the study was proxied by Roychowdhury (2006) model of abnormal cash flow. The study adopted opportunistic theory to underpin the findings of the study. The study adopted correlation and expo-factor research design and secondary data was collected from the annual reports and accounts of the sample firms and analysed using ordinary least square regression as a statistical technique of analysis with SPSS as a tool of analysis. The study found that outside directors and gray directors are negatively associated with earnings management, which implies that, managers' opportunistic manipulative accounting can be constrained or deter by them. The study does not include financial service firms.

Addressing the preposition of agency theory, the concept of agency theory was early used by Jensen and Mecklin (1976). They apply the concept of agency to elaborate the issues associated with the separation of principal and agent in a large corporation, in line with Berle and Means (1932) propositions. The issue in agency theory is conflicts of interest that arise between principal and agent. The shareholders delegate decision making power to the Managers who execute duties on their behalf (Jensen & Meckling, 1976). Conflicts of interest give birth to information asymmetry between the principal and the agent. An agent is expected to act in the best interest of the principal through their actions and decisions. Therefore, monitoring and agency theory was used to anchored audit quality proxied by audit firm size, audit firm independence audit firm tenure, managerial ownership and board independence against earnings management of quoted deposit money banks in Nigeria.

3. Methodology and Variable Measurement

This study examines impact of audit quality, governance mechanism on earnings management of quoted deposit money banks in Nigeria for the periods of eleven (11) years from 2009-2019, The base of choosing this period is in line for the world financial predicament in 2009 and numerous financial predicaments in Nigeria between this period which has coxswained to the noise for the quality of earnings amongst listed DMBs in Nigeria. The Correlational and Ex-post factor approach was employed, the approach is suitable because it aids in explaining the effect of Audit quality, governance mechanisms on earnings management of the sampled banks. The data is from secondary source through audited reports and accounts as a method of data collection. A total of fourteen (14) banks out of the fifteen (15) quoted was used as a result of unavailability. The panel multiple regression technique was used as techniques of data analysis as it was found suitable for the analysis.

$$\frac{LLP_{it}}{TA_{it}} = \alpha_{it} + \beta_1\frac{LCO_{it}}{TA_{it}} + \beta_2\frac{BBD_{it}}{TA_{it}} + \beta_3\frac{\Delta NPL_{it}}{TA_{it}} + \mu$$

Where:
LLP = Loan Loss Provision
LCO = Beginning balance of bad and doubtful debt + additional provision of bad and doubtful
Debt – bad debt written off
BBD = Beginning balance of bad and doubtful debt
ΔNPL = Change in non- performing loan
TA = Total Assets
α = constant term
it = Firm i at time t
β1, β2, β3, = the parameters for estimation
μ = Error term

Therefore, the study's parsimonious model is presented as follows:

$$EMG_{it} = \beta_0 + \beta_1 AFS_{it} + \beta_2 AFI_{it} + \beta_3 AFT_{it} + \beta_4 MO_{it} + \beta_5 BIND_{it} + \beta_6 FSIZ_{it} + \varepsilon_{it}$$

Where**:**
EMG = Earnings management
AFS = Audit firm size
AFI = Audit firm independence
AFT = Audit firm tenure
MO = Managerial Ownership
BIND = Board independence

FSIZ = Firm size
$\beta 0$ =Constant
$\beta 1$- $\beta 6$ =coefficient of the parameters
it = firm and year
Ɛ = error term

The variables of the study consist of dependent variable which is earnings management measured by discretionary loan loss provision change et al (2008) model. Earnings Management (Dependent Variable)
Earnings Management: Measured by absolute values of the residuals (discretionary accruals) using Chang *et al* (2008) model of loan loss provision.
Audit Firm Size (Independent Variable) is Dichotomy of 1 for Big4 and0 for non-Big 4 (Okolie, Izedonmi and Enofe, 2013)
Audit Firm Tenure (Independent Variable) is measured by Dichotomy of 1 for 3years and above and 0 otherwise (Okolie 2014)
Audit Firm Independence (Independent Variable) is measured by the Audit fees (Lin & Hwang, 2010)
Managerial Ownership (Independent Variable) is defined as the % of managerial share-holding to total shares Farouk and Hassan (2014)
Board Independent (Independent Variable) is Measured using Measured by the proportion of independent directors on the board, expressed in percentage Che Haat (2006); Shehu (2011).

4. The Results and Discussions
This section presents the results of the empirical study. Interested in the presentation, analysis and interpretation of data collected from secondary sources. The section provides a conclusion and recommendations of the study results. Multiple regression analysis; specifically, the fixed regression model (FEM) was used to test the mentioned hypotheses.

Descriptive statistics for each of the variables were identified to indicate minimum, maximum, average, standard deviation. It helps readers understand the measures of central tendency associated with the study variables.

Table 1: Descriptive Statistics

Variable	Mean	Minimum	Maximum	Std. Dev
EMG	.0247	.0110	.1852	.0220
AFT	.8116	0	1	.3922

AFI	18.3458	16.213	19.68	.7983
AFS	.9285	0	1	.2583
MO	.0685	0	0.19	.0466
BIND	.1122	0.05	.21	.0306
FSIZE	17.774	12.509	21.604	2.896

Source: Stata Output, 2020

Table 1 reports the descriptive statistics for the dependent and independent variables respectively (EMG= Earnings Management, AFT=Audit firm tenure, AFI=Audit firm independence, AFS= Audit firm size, MO= Managerial ownership and BIND= Board independence). The results show that the mean Earnings Management, audit firm, Audit firm independence, Managerial ownership, audit firm size and Board independence are 0.0247, 0.8116, 18.346, 0.9285, 0.0685 and 0.1122 respectively. A similarity of the mean values with the maximum values for each of the variables shows the banks managed earnings up to 2.47%. The mean value indicates that 81% of listed deposit money banks in Nigeria rotate audit firm after 5 years in office. The average mean of audit independence (measured by audit fees) paid by quoted deposit money banks in Nigeria is ₦18.3 million, meaning on average each of the listed deposit money banks in Nigeria paid ₦18.3 million naira as audit fees. The average value of audit firm size is (0.92) which means on average 92% of the listed deposit money banks in Nigeria were audited by one of the Big 4 globally recognized audit firms while (0.08) 8% on average were audited by the non-Big 4 audit firm, the average mean is (0.06) which means that on average 6% of the total equity ownership of listed deposit money banks in Nigeria is owned by management while the remaining 94% average is owned by other shareholders. However, the average mean revealed a value of (0.11) which means on average 11% of board size of listed deposit money banks in Nigeria are independent directors.

Table 2: Correlation Matrix

Variable	EMG	AFT	AFI	AFS	MO	BIND	FSIZE
EMG	1.0000						
AFT	-0.0615	1.0000					
AFI	-0.2488	-0.0784	1.0000				
AFS	0.0283	-0.1336	0.5343	1.0000			
MO	0.0193	0.0159	0.0605	0.0888	1.0000		
BIND	0.0384	-0.0185	0.1314	0.289	0.0429	1.0000	
FSIZE	0.0638	0.1806	-0.0972	-0.1841	0.0374	0.1236	1.0000

Source: Stata Output, 2020

Table 2 shows that earnings management is negatively associated with audit firm tenure at 6%. This signifies that higher audit tenure gives auditors better insight for quality audit. It also indicates that audit firm independence is associated with earnings management at 24% indicating that higher audit fees can influence the quality of audit which will constrain earnings management of quoted deposit money banks in Nigeria. The table also shows that there is positive association between EMG of listed banks and audit firm size, from the correlation coefficient of 0.0283. This relationship implies the possible consideration of the financial reporting scandals even after been audited by the big audit firms. Moreover, the table indicates a correlation between earnings management and managerial ownership from the correlation coefficient of 1%. This is possible due to entrenchment hypothesis which support that too much managerial ownership can encourage earnings management at the expense of minority shareholders. The table also indicates a positive relationship between earnings management and board independence from the correlation coefficient of 3.8%.

Summary of Regression Results

The summary of the regression results obtained from the parsimonious model of the study is presented as follows:

Table 3: Regression Results

Variables	Coefficients	t-values	p-values	Tolerance values/Vif
AFT	-.0064	-1.55	0.124	0.95/1.05
AFI	-.0083	-3.24	0.002	0.70/1.43
AFS	.0099	1.10	0.270	0.68/1.46
MO	-.1179	-1.86	0.006	0.98/1.01
BIND	-.1521	-2.41	0.001	0.96/1.04
FSIZE	.0009	0.80	0.428	0.92/1.08
R^2			**0.3312**	
F-Stat			**3.78**	
F-Sig			**0.0000**	

Source: Stata Output, 2020

The cumulative explanatory power which is R^2 (0.3312) which is the multiple coefficient of determination gives the proportion or percentage of the total variation in the explained variable by the explanatory variables jointly. Hence, it signifies

33.12% of total variation in earnings management of listed banks is caused by the collective effort of audit firm tenure, audit independence, audit firm size, managerial ownership and board independence. This further indicates that the model is good, adequately and well fitted in the model and indeed the explanatory variable are properly selected, combined and used. This can be confirmed by the F-Stat coefficient of 3.78 and F-sig of 0.0000 which is statistically significant at 1% level of significance. Therefore, this result can be relied upon.
Tolerance values and variance-inflation factors are two further steps to assess multi collinearity between independent variables. Using STATA, the variance inflation factors and tolerance values are computed and found to be consistently smaller than ten and one respectively indicating absence of multi collinearity (Neter, Kutner, Nachtasheim, & Wasserman, 1996) and (Cassey & Anderson, 1999). In addition, the tolerance values are consistently smaller than 1.00 thus further substantiates the fact that there is no multicllinearity between independent variables (Tobachnick & Fidell, 1996).

Audit Firm Tenure and Earnings Management
Again, the regression result revealed a negative and insignificant relationship (coefficient = -.006 and p=.12%) between audit firm tenure and earnings management of listed deposit money banks in Nigeria. The result signifies that the higher the number years of audit by a particular audit firm among the listed deposit money banks in Nigeria, the lower the earnings management. That is, audit firm tenure has no power to influence earnings management of public quoted deposit money banks in Nigeria but rather only an inverse relationship exists. The result implies that for every increase in the number of years of audit firm tenure of listed deposit money banks in Nigeria, there is possibility that earnings management will reduce but audit tenure does not have the power to determine earnings management of listed deposit money banks in Nigeria. The result is in line with priory expectation because it is expected that audit tenure of auditors of public quoted deposit money banks in Nigeria should have the power to constrain earnings management, because it is believed that higher audit firms tenure will give better insight to the auditors about the client operation as such quality audit should be achieve with higher audit tenure capable of constraining earnings management. The result of the study revealed an inverse though insignificant of audit firm tenure on earnings smoothing of quoted deposit money banks in Nigeria. The finding of the study is in line with previous studies of; Lin and Hwang (2010). Contrary to the findings of; Rad et al (2016), Okolie (2014), Ebrahim (2001), Reichelt and Wang (2010) and Okolie et al (2013).

Audit independence and earnings Management

The regression result in table revealed a negative and significant relationship (coefficient = -.0083 and p=1%) of audit fees and earnings management of banks in Nigeria. This result signifies that the higher the fees paid to auditors of listed deposit money banks in Nigeria the lower the level of earnings management. That is, audit fees have the power to constrain earnings management of listed deposit money banks in Nigeria. The result implies that for every one percent or ₦1increase in audit fees paid to audit firms of listed deposit money banks in Nigeria, earnings management will reduce by 0.8%. The result is in line with priory expectation because it is expected that audit fees paid to the audit firms of public quoted deposit money banks in Nigeria should constrain earnings management as high audit fees will make audit firms deploy their best audit staff in order to achieve a quality audit capable of constraining earnings management. The finding of the study is in line with studies of; Murya (2010), Okolie (2014) and Okolie et al (2013).

Audit firm size and earnings management.

Table 3 also revealed that there is a positive and insignificant relationship (coefficient = 0.009 and p= 27%) between audit firm size and earnings management of listed deposit money banks in Nigeria. The result signifies that that the Big-4 audit firms have a direct positive relationship with earnings management of public quoted deposit money banks in Nigeria. That is, audit by the Big-4 audit firms do not have the power to determine earnings management of listed deposit money banks in Nigeria but only direct relationship exist. The result implies that the more Nigeria listed deposit money banks are being audited by any of the Big-4 audit firms, the higher the earnings management in the sector. The result is not in line with priory expectation because it is expected that audit firm size should constrain earnings management, whereas, in this study a positive and insignificant relationship exist as revealed by the finding of the study. The result is true despite contrary to priory expectation and a good example is the Enron scandal of (2001), Pamalat in Italy (2003) Oceanic bank (2009). Chi (2011), Kim (2003), and Cohen and Zarowin (2010) also found that the presence of the Big-4 audit firms is associated with greater earnings management; this can also be possible due to entrenchment hypothesis.The finding of the study is in line with previous studies of; Chi (2011), Cohen and zarowin (2010), Mamis and Cetnac (2012) Khalil & Ozkan (2016) in Egypt, Hassan & Ibrahim (2014) in Nigeria, Roodposshti & Chashmi (2010) that audit firm size has positive relationship with earnings management and contrary to the findings of; Tijjani (2015) in Nigeria, Houqe et al (2015) in India, Solima and Ragab (2014) in Egypt, Nuryaman (2013) in Indonesian, Okoli et al (2013), Inaam et al (2012) in Tunisain, Lin and Hwang (2010).

Managerial ownership and earnings management

In addition, the regression result revealed a negative and significant relationship (coefficient = -.117 and p=10%) between managerial ownership and earnings management of public quoted deposit money banks in Nigeria. The result signifies that as share ownership by management of public quoted deposit money banks in Nigeria increases then earnings management practices by management will decreases, which mean managerial ownership has the power to influence earnings management of public quoted deposit money banks in Nigeria negatively. The result implies that for every one percent increase in ownership of shares by management of public quoted deposit money banks in Nigeria earnings management will reduce by 11%. The result is in line with priory expectation because it is expected that managerial ownership should reduce earnings management of public quoted deposit money banks in Nigeria, because interest will be aligning between owners and management as management become co-owners conflict of interest is expected to reduce. It is expected that managerial ownership should have the power to constrain earnings management of public quoted deposit money banks in Nigeria because of alignment of interest hypothesis. The finding of the study is in line with previous studies of; Murya (2010), Alves (2012), Ali et al (2008), Shen (2016), Warfield and Wild (1995), Jensen and Mecklin (1976). However, other studies found no relationship such as Spinos (2013), Abd Al Nassar (2012) and Hafiza and Susela (2005).

Board independent and earnings management

The regression result revealed that there is a negative and significant relationship (coefficient = -.152 and p=1%) between board independence and earnings management of public quoted deposit money banks in Nigeria. The result signifies that as the number of board independent director's increases on the board, earnings management of public quoted deposit money banks in Nigeria decreases. That is, Board independent director has the power to influence earnings management of public quoted deposit money banks in Nigeria negatively. The result implies that for every one percent increase in the number of independent directors on the board of public quoted deposit money banks in Nigeria, earnings management will reduce by 15%. The result is in line with priory expectation because it is expected that independent directors on the board of public quoted deposit money banks in Nigeria should have the power to constrain earnings management due to their monitoring role. The result is in line with reality because independent directors have no special interest in the bank with the management, which will enable them to monitor management to act in the best interest of the owners. The presence of independent directors on the board will reduce earnings management of listed deposit money banks in Nigeria. The finding of the study is in line with previous studies of; Khalil & Ozkan (2016), Hassan & Ibrahim (2014), Roodposshti & Chashmi (2010), , Murya (2010), Lin and Wang (2011) and Oba (2014). Contrary to other findings such as; Nahandi, Baghbani & Bolouri (2011), Abdullahi & Ismail (2009), Nugroho and Eko (2011), Yan et al (2009), Saleh et al (2005).

5. Conclusion

The study concluded that audit independence, managerial ownership and board independence have significant negative impact on earnings management of listed deposit money banks in Nigeria while audit firm size and audit tenure are insignificant effect on earnings management of banks. It is therefore recommended that Nigeria listed deposit money banks should maintain the audit fees they are paying to the audit firm or increase it as any attempt to reduce the audit fees can increase earnings management. However managerial shareholding should be increase as it will reduce earnings management and also board independent directors on the board should be increased from minimum of two as it will reduce earnings management of listed deposit money banks in Nigeria on the other hand there is no significant impact between audit firm tenure and audit firm size on earnings management of listed deposit money banks in Nigeria. Audit firm size is recommended that local audit firms should be used instead of the Big 4 as the size have no any effect. Also, for audit tenure the bank should maintain its audit tenure as it does not have any influence on earnings management.

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